

Latexx Partners

Starting 2010 with a bang

LTX MK / LATX.KL

Terence Wong CFA +60(3) 20849689 – terence.wong@cimb.com

- Broadly in line; maintain OUTPERFORM.** Latexx reported another strong quarter yesterday. Annualised 1Q10 earnings made up 82% of our estimate (consensus estimates are not available), which we consider to be on track given the likelihood of stronger quarters ahead as a result of the company's expansion plans and higher sale of premium products. The 2.5 sen DPS announced for the quarter was higher than 1Q09's payout of 1.0 sen and in line with our full-year expectations of 8.0 sen. We retain our earnings forecasts and target price of RM5.44 as we continue to value Latexx at a 30% discount to Top Glove's target P/E of 16.5x. We maintain OUTPERFORM on Latexx, premised on the potential re-rating catalysts of this strong set of results and its improving earnings ability driven by its expansion and move towards premium products.
- Starting 2010 with a bang.** Latexx kicked off 2010 with a bang. Its 1Q10 bottomline advanced 20% qoq and 127% yoy, beating its previous record in 4Q09. The profits were stoked by the company's capacity expansion and higher nitrile sales. Sales volume rose 13% qoq to 1.3bn pieces. Nitrile gloves made up about 30% of Latexx's 1Q10 revenue compared to about 20% in 4Q09. EBIT margins also improved from 18% in 4Q09 to almost 20% in 1Q10.
- Further upside to earnings forecasts.** As the results were in line and the expansion is progressing as scheduled, we retain our FY10-12 earnings forecasts. However, we flag the upside potential to our numbers as they do not include revenue from protein-free gloves. Recall that in January, the company announced that it had acquired the sole licence to manufacture and market the world's first-ever protein-free natural rubber gloves. The first prototype machine is due to arrive this month. The premium product will be able to command higher selling prices and margins and contributions are likely to come in as early as 4Q10. Management have yet to finalise the full details on this product and how much it will contribute in terms of sales volumes or margins but guided that selling prices could be US\$4-5 higher per 1,000 pieces.
- First-ever analyst briefing this Friday.** Latexx will be holding its first-ever results briefing this Friday, followed by a session with the media. We gathered that the invitees are mostly sell-side analysts. We view the commencement of results briefings as a good move that will improve transparency and raise the company's profile.

Results comparison

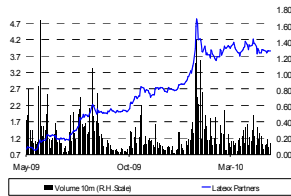
FYE Dec (RM m)	1QFY10	1QFY09	yoy % chg	4QFY09	qoq % chg	Prev. FY10F	Comments
Revenue	126.2	70.3	79.4	102.8	22.7	565.1	Increased by 79% yoy due to higher sales
Operating costs	(99.2)	(59.1)	67.9	(81.6)	21.5	(442.7)	Increased in line with higher production
EBIT	24.6	11.2	118.5	18.8	30.8	108.6	
EBIT margin (%)	19.5	16.0	21.8	18.3	6.6	19.2	Margins improved due to better product mix
Interest expense	(1.4)	(2.1)	(35.8)	(1.4)	(5.2)	(7.9)	Borrowings of RM83.9m as at end-Mar 10
Interest & invt inc	0.0	0.0	86.4	0.0	(6.8)	0.1	Cash balance of RM32.4m as at end-Mar 10
Pretax profit	23.2	9.1	154.2	17.4	33.7	100.8	Broadly in line
Tax	(2.5)	(0.0)	nm	(0.1)	2,102.6	(0.3)	Lower than statutory tax rates due to utilisation
Tax rate (%)	10.9	0.0		0.7		0.3	of capital and reinvestment allowances
Net profit	20.7	9.1	126.6	17.3	19.9	100.6	Annualised made up 82% of our estimate. Expect
EPS (sen)	10.5	4.7	124.1	8.9	18.8	49.7	stronger quarters ahead
FD Core EPS (sen)	7.5	3.3		6.3		36.6	Assume full dilution of warrants

Source: Company, CIMB Research

Financial summary

FYE Dec	2008	2009	2010F	2011F	2012F
Revenue (RM m)	223.3	328.4	565.1	682.8	807.3
EBITDA (RM m)	24.1	66.8	122.4	157.9	188.4
EBITDA margins (%)	10.8%	20.3%	21.7%	23.1%	23.3%
Pretax profit (RM m)	15.2	52.2	100.8	129.8	153.7
Net profit (RM m)	15.2	52.1	100.6	129.5	153.3
EPS (sen)	7.8	26.0	48.7	62.7	74.3
EPS growth (%)	212.4%	233.0%	87.7%	28.8%	18.4%
P/E (x)	49.4	14.8	7.9	6.1	5.2
FD core EPS (sen)	5.5	19.0	36.6	47.1	55.8
FD core P/E (x)	69.7	20.3	10.5	8.2	6.9
Gross DPS (sen)	0.0	1.9	8.0	11.0	14.0
Dividend yield (%)	0.0%	0.5%	2.1%	2.9%	3.6%
P/BV (x)	6.2	4.4	3.0	2.1	1.5
ROE (%)	13.4%	35.8%	46.5%	40.4%	34.3%
Net gearing (%)	47.0%	33.7%	31.5%	16.6%	3.4%
P/FCFE (x)	90.3	18.4	174.2	17.7	9.8
EV/EBITDA (x)	33.5	12.4	7.2	5.4	4.3
% change in EPS estimates			-	-	-
CIMB/Consensus (x)			N/A	N/A	N/A

Price chart



Source: Bloomberg

Source: Company, CIMB Research, Bloomberg

Figure 1: Sector comparisons

	Bloomberg		Price	Target		Core	3-yr EPS	P/BV	ROE	Div	
	ticker	Recom.	(Local)	price	Mkt cap	P/E (x)	CAGR	(x)	(%)	yield (%)	
				(Local)	(US\$ m)	CY2010	CY2011	CY2010	CY2010	CY2010	
Latexx	LTX MK	O	3.85	5.44	250	7.9	6.1	43.2	3.0	46.5	2.1
Adventa	ADV MK	O	3.40	5.44	160	10.9	8.2	31.5	1.9	19.7	2.8
Hartalega	HART MK	O	7.88	12.11	600	11.6	9.7	37.0	4.2	42.2	3.0
Kossan	KRI MK	O	7.86	10.43	395	9.3	7.5	16.7	2.5	31.2	1.9
Supermax	SUCB MK	O	6.80	11.90	580	8.7	7.6	24.5	2.5	32.5	2.2
Top Glove	TOPG MK	O	12.52	17.90	1,212	12.9	11.6	26.6	3.4	29.4	3.1
Simple average						10.2	8.5	29.9	2.9	33.6	2.5

O = Outperform, N = Neutral, U = Underperform, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB Research

For further information, kindly contact Farahnaz Ireena at (603) 2084 9911 or farahnaz.amerhamzah@cimb.com

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NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

UNDERPERFORM: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

TRADING BUY: The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

TRADING SELL: The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

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STOCK RECOMMENDATIONS

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NEUTRAL: Expected total returns of between -15% and +15% over the next 12 months.

UNDERPERFORM: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

TRADING SELL: Expected negative total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

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